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RR RUEHBZ RUEHDU RUEHGI RUEHJO RUEHMR RUEHRN
DE RUEHKI #0333/01 0990647

ZNR UUUUU ZZH

R 080647Z APR 08

FM AMEMBASSY KINSHASA

TO RUEHC/SECSTATE WASHDC 7855

INFO RUEHXR/RWANDA COLLECTIVE

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UNCLAS SECTION 01 OF 08 KINSHASA 000333

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SUBJECT: DRC FEBRUARY/MARCH ECONOMIC REVIEW

11. (U) Summary

Aviation

- MONUC Owes Government of Uganda USD 10 Million in Aviation Fees
- Royal Air Maroc Service to Casablanca and Europe
- Air Zimbabwe Offers Flights from Kinshasa to Dubai and Brussels

Banking Sector

- Low Rate of Bank Account Ownership in DRC
- Official Central Bank Interest Rate is 24 Percent
- Positive Foreign Exchange Balance
- Money Supply Increases by 15 Percent
- Congolese Central Bank Announces New Treasury Bill Issue and Process

Bilateral Cooperation

- Belgium to Help Modernize DRC Customs Agency
- New Partnership Enhances Expertise in Accounting Practices

Commercial

- Cosmetic Producers Resist Ban on Products

Cooperation

- GDRC Standardizing Bidding Procedures

Corruption

- DRC and South Africa Join to Fight Corruption

Energy

- World Energy Council Announces Grand Inga Project
- WB Director: SNEL Needs USD 20B to Rehab Inga Dam
- SNEL Seeks Proposals for Generator Rehab

Forestry

- World Bank Reviews its Forestry Activities in DRC
- GDRC Defends Timber Export Legality

Governance

- Commission: USD 2B Missing from Treasury

Health

- Malnutrition in Katanga Province Increasing

Infrastructure

- World Bank Funds USD 50 Million in Road Projects

Labor

- MONUC Head Promotes Contracts with Local Businesses
- National Labor Council Meets

Microfinance

- Association Sets Up Work Plan 2008 to 2012
- DRC National Microfinance Strategy Published
- Proposal for Statistics Law delivered to Plan Ministry

Mining

- VM Mines: All Mining Contracts to be Renegotiated
- MIBA Needs USD 50 Million to Improve Production
- China to Exploit Two GECAMINES Concessions
- Mining Contract Review Commission Contacts 61 Companies
- Mining Conference On 2002 Mining Code and EITI Practices
- CAMEC and Prairie Complete Joint Venture and Restart Operations at Mukondo
- Police Expel Artisanal Miners from Mining Concessions

Multilateral Cooperation

- UNICEF and GDRC Work to Enhance Education

Nuclear

- DOE/DOS Delegation Negotiates with GDRC to Defuel Nuclear

KINSHASA 00000333 002 OF 008

Reactors

Petroleum

- Senator: 2008 Budget Does Not Share Oil Revenues
- SACOIL Gains Oil Concession; Tullow Loses One
- French Petroleum Company Invests in Bas-Congo
- Brazilian Investors Launch Petroleum Drilling

Public Enterprises

- New Manager of SONAS Launches Operation Insurance
- Union Protests Against Water Company Reforms
- SNCC Management Contract Awarded to Belgian Firm
- USD 8 Million to Revitalize ONATRA and SNCC
- Office des Routes Celebrates 37 Years, then Complains

Public Finance

- GDRC Struggling to Meet Key IMF Requirements
- GDRC Cites Causes of Poor 4th Quarter Performance
- The GDRC Committed to Retrocede Revenues to Provinces
- Cigarette Smuggling in Bunia
- Deputies Debate GDRC Support to Provinces
- State Revenues Reach 162 Million
- Foreign Exchange Reserves Decrease

Telecom

- GDRC Ministries Get Connected

Transportation

- Public Transportation Shortage in Kinshasa
- STUC Increases Buses in Circulation
- GDRC to Auction Matadi Cargo Containers

End Summary.

Aviation

¶12. (U) MONUC (the United Nations Mission in the DRC) owes USD 10 million to the Ugandan Civil Aviation Authority for landing fees, air navigation, airport passenger service, and change facilities. The debt accrued from March 2002 through January 2008. On August 8, 2003, the UN and Ugandan Government signed an agreement allowing MONUC to use Entebbe as their base for flying in and out of DRC, but the agreement did not stipulate how the fees would be paid.

¶13. (U) Royal Air Maroc (RAM) airline inaugurated flights from Kinshasa to Europe and Africa via Casablanca on March 29. The company will fly on Fridays and Sundays and will operate Boeing 737-800 aircraft with economy and business class sections.

¶14. (U) The Congolese airline, Lignes Ariennes Congolaises (LAC), signed a contract with Air Zimbabwe for joint operations of flights from Kinshasa to both Dubai and Brussels. Air Zimbabwe will provide aircraft while LAC will provide rights to DRC airspace. Air Zimbabwe will also operate some DRC domestic flights with LAC. LAC has also signed a Memorandum of Understanding with the Arcane Group for DRC airport management.

Banking Sector

¶15. (U) According to the Deputy General Secretary of COMESA, DRC still has one of lowest levels of bank account ownership on the continent. Of the 60 million Congolese only 100,000 have accounts in the DRC banking system. This situation impedes commercial development in eastern and southern African regions.

¶16. (U) The official Congolese Central Bank (BCC) interest rate is 24 percent. This rate was decided by BCC in early January 2008.

¶17. (U) According to the Central Bank, the year-to-date total of purchased foreign currencies reached USD 120 million while sold foreign currencies was USD 126 million. This means that some USD 6 million worth of Congolese francs (FC 3 billion) were removed from circulation during the period January 1 through March 10.

¶18. (U) Money supply has increased by nearly 15 percent since the end of December 2007. (Note: This is not a surprise considering the sharp depreciation of the Congolese franc, nearly ten percent, since December. Exchange rate fluctuations tend to reflect changes in money supply very closely and quickly in the DRC. End note.)

KINSHASA 00000333 003 OF 008

¶19. (U) In an effort to reduce the amount of Congolese francs in circulation, the Central Bank (BCC) has announced a new process for issuance and redemption of Treasury Bills. Offers by those wishing to purchase the new T-bills will be submitted thru merchant banks and include the buyer's suggested interest rate and the amount to be purchased (in FC 1,000,000 units, about USD 1,700 each). The BCC will then analyze all the offers and sell the T-bills at the lowest interest until all the bills are sold.

Bilateral Cooperation

¶10. (U) According to an existing accord signed between DRC and Belgium, both countries are committed to fight against smuggling at the international level. After a visit in DRC, the General Inspector of the Belgian Customs Agency declared that Belgium would help DRC to promulgate its new customs code. The new code should be published in June.

¶11. (U) A new partnership between the Belgian Royal Institute of Auditors and both the Congolese Institute of Auditors and the Congolese Permanent Council of Accountancy aims at enhancing the level of expertise of DRC auditors and promoting sound accounting practices for the annual control of public accounts.

Commercial

¶12. (U) The Ministry of Industry has started to enforce a ban on hydroquinone by regulating the stocks of certain cosmetics. Cosmetics producers are reluctant to comply with the ban, arguing that their plants would need adjustments. Cosmetics with hydroquinone, used primarily to lighten skin, are in high demand in Kinshasa, and producers may be trying to maintain a profitable line.

Cooperation

¶13. (U) COMESA, the Common Market for Eastern and Southern Africa, has urged the DRC to harmonize its bidding procedures with COMESA standards. A new DRC bidding procedure is ready to be sent to the National Assembly according to the Vice Minister of Finance.

Corruption

¶14. (U) The DRC and South Africa signed an agreement to fight corruption through their civil service ministries. South Africa will also fund some anti-corruption related activities in DRC.

Energy

¶15. (U) The World Energy Council launched a new project called "Grand Inga" that is intended to provide electricity to sub-Saharan African countries through the South African Power Pool. The project would supply the DRC with 52 generators of 750 megawatts (MW) each for a total of 39,000 MW. The electricity companies involved in the Grand Inga project met most recently in Gaborone, Botswana on March 16 -17, 2008, where they concluded that electricity is crucial for economic growth and poverty reduction. The Grand Inga project includes both dams, Inga I (inaugurated in 1972 with a potential of 380 MW) and Inga II (inaugurated in 1982 with a 1,440 MW potential).

¶16. (U) According to the World Bank, the DRC Treasury receives only 35 percent of electricity revenues generated by SNEL. Marie Frangoise Marie-Nelly, Director of the World Bank in Kinshasa, said SNEL needs USD 20 billion to rehabilitate Inga dam, expand hydroelectric capacity, and improve transmission lines. She also said SNEL should use the available funds of USD 200 million to restore turbines and to construct a second power transmission line from Inga.

¶17. (U) SNEL published a tender for rehabilitation of turbines 7 and 8 at INGA 2. This rehabilitation will fill the current energy deficit by responding to the needs of the population, the mining industry in Katanga, and supporting energy pools in Sub-Saharan Africa. The deadline for submission is May 22. Proposals will be opened the same day.

Forestry

KINSHASA 00000333 004 OF 008

¶18. (U) Since early 2002, the World Bank (WB) has helped the DRC to approve 48 million hectares of forest concessions. Problems with exploitation have made the GDRC review some of these contracts, with 25 million hectares recuperated. The WB in Kinshasa is preparing three reform projects: 1) capacity building for forestry agencies, 2) capacity building for ICCN (Congolese Institute for Nature Conservation) staff, and 3) a multi-donor project to review forestry policy with the participation of civil society.

¶19. (U) The GDRC has reacted to Greenpeace accusations of illegal exports against two timber companies operating in the DRC. The government says that recent shipments to France were legal and covered by the required procedures and documents.

Governance

¶20. (U) An audit commissioned by Prime Minister Gizenga reports that USD 2 billion went missing from the DRC treasury during the past 18 months. The commission audited nine public enterprises and the three main revenue collecting agencies (Customs, Taxes, and Revenues). Ministries that oversee public enterprises were said to have misappropriated USD 786,819; illegal advantages totaling USD 1,170,794 were granted to managers, and USD 18,081,738 in losses were still to be justified. "Unconscionable bargains" reached USD 9,578,420 and interior debt of USD 1,467,826,233 went unpaid. The customs (OFIDA), tax (DGI) and revenue (DGRAD) agencies were said to have lost USD 59,980,543, USD 56,600,955 and USD 1,705,015,941 in income, respectively.

Health

¶21. (U) Cases of malnutrition in and around mining cities in Katanga are increasing due to the reduction of agricultural activities by the population in formerly agricultural areas. The province now imports eighty percent of the cereal it consumes, most of this from South Africa. Governor Katumbi has decreed that all mining companies will cultivate at least 500 hectares (over 1000 acres).

Infrastructure

¶22. (U) A USD 50 million high-priority World Bank road project (Pro-Routes) will re-pave sections that are currently impassable. The roads targeted are Kisangani-Buta-Bondo-Bunduki (620 km, about 450 miles) in Province Orientale, with connections to Equateur Province; and Uvira - Kasomeno (1,180 km, about 800 miles) connecting Sud Kivu and Katanga provinces. This project will serve highly populated areas and connect to a network of about 7,000 km (almost 5,000 miles) of high-priority roads funded by other donors including the International Development Association (IDA). The WB project also includes a comprehensive social and environmental program.

Labor

¶23. (U) Alan Doss, the new SRSG to the DRC, plans to promote the use of DRC SMEs for MONUC contracts. Doss committed to initiating workshops that will help local businesses understand MONUC's procurement process.

¶24. (U) The National Labor Council began on March 25, 2008 with delegates from the Ministry of Labor, private companies, and the labor unions. Council delegates will review resolutions from the First National Labor Council; adoption of the Labor Code and jobs that foreigners are prohibited to hold; and the guaranteed minimum salary for professionals.

Microfinance

¶25. (U) RIFIDEC (Regroupement des Institutions de Micro Finance du Systhme Dcentralis du Congo), a platform of micro financial institutions, has set up its 2008 - 2012 work plan. This work plan targets modernization and outreach. RIFIDEC includes 26 institutions authorized by the Central Bank in eight provinces, and helps some 120 cooperatives and microfinance institutions to formalize their operations.

¶26. (U) The National Microfinance Strategy document provides information on the current situation, the national policy/strategy, and an action plan for 2008-2012. Approximately 60,000 accounts exist in 75 microfinance institutions authorized by the Congolese Central Bank. Private banking products and services in the DRC are

KINSHASA 00000333 005 OF 008

still poor in general, while the need for banking and credit services are high and increasing.

¶27. (U) A committee will present the Ministry of Plan a proposal for

new laws regulating the collection and organization of statistics. The draft proposal suggests standardizing the statistical methods used by various GDRC organizations. Statistics are currently collected by the National Council of Statistics, the National Institute of Statistics, and various provincial-level agencies. The Ministry of Plan hopes to improve the reliability and availability of statistics in the DRC.

Mining

¶ 28. (U) The Vice Minister of Mines, Victor Kasongo Shomari, announced in February that all of the DRC mining contracts reviewed needed to be renegotiated. Kasongo, leading a delegation to the Indaba mining conference in South Africa, said the review process turned out to require "multiple major surgeries" rather than the minor corrections initially envisioned. The GDRC will start negotiations with the mining companies, who will then have the opportunity to appeal any decision within 30 days.

¶ 29. (U) MIBA is looking for USD 50 million in funding to improve production. The diamond parastatal announced that it will use 90 percent of the funding for new investments and 10 percent for operations. MIBA is in the process of reducing expenses by 25 percent.

¶ 30. (U) Forrest Group International has signed an agreement to retrocede two concessions, Mashamba West and Dikulwe in Katanga province, to GECAMINES for USD 825 million. The concessions belonged to Katanga Mining, a 24.5 percent shareholder in Forrest Group, and will not be exploited before 2020. Chinese companies will reportedly exploit the mineral reserves in Mashamba West and Dikulwe in exchange for road construction and other infrastructure-building projects.

¶ 31. (U) The Ministry of Mines announced on February 18, 2008 that the DRC had completed the review of 60 mining contracts and has made the results available to respective companies. The Commission recommended cancellation of 16 contracts, including joint ventures between GECAMINES and Swanepoel/Exaco, MIBA and SENGAMINES, and OKIMO and Amani Gold. A GDRC panel will determine which recommendations to accept, and the next step in the process will be renegotiations with a GDRC Task Force. (Ref Kinshasa 294)

¶ 32. (U) The Mining Days Conference took place in Kinshasa from March 12 to 14, during which the Ministry of Mines planned to make quick decisions to implement the mining code. Martin Kabwelulu, the Minister of Mines, said the objective for the conference was to evaluate the implementation of the 2002 Mining Code and to introduce good governance principles through the Extractive Industries Transparency Initiative (EITI) practices. Delegates from international organizations, decentralized administrative entities, organizations of artisanal mining exploiters, tax collection services, government experts, and Chambers of Commerce participated in the event.

¶ 33. (U) Central African Mining & Exploration Company (CAMEC) completed its joint venture with Prairie International, majority-owned by the Gertler family, after negotiations with GECAMINES. CAMEC and Prairie have since restarted operations on Mukondo Mountain. CAMEC announced that the new deal with GECAMINES clears the company from further review of its mining licenses. CAMEC also raised USD 87.27 million (72.5 million new shares at USD 1.21 per share) to develop its Luila copper cobalt facility, estimating a possible 100,000-ton copper cathode production capacity per year.

¶ 34. (U) GECAMINES expelled artisanal miners from its Kamatana concession, 3 km from Likasi in the Katanga province, on March 6. Police killed one miner after fighting broke out with artisanal miners that would not leave. Police also forced artisanal miners off of an Anvil Mining concession near Kolwezi on March 31, firing teargas into the air. Artisanal miners burned tires and threw Molotov cocktails in protest in Kolwezi and nearby Luilu.

Multilateral Cooperation

¶135. (U) In an effort to enhance the level of education in DRC, the GDRC and UNICEF estimate the need in the education sector at USD 93 million from 2008 to 2012. Part of this projected expenditure will

KINSHASA 00000333 006 OF 008

be taken from the DRC budget while the rest should be raised from outside sources. This plan targets reforms in education as well as increasing the number of children in schools.

Nuclear

¶136. (U) A Department of Energy/Department of State delegation met with the GDRC Office of the Presidency, the Ministry of Higher Education and Scientific Research, and officials from CREN-K (Regional Center for Nuclear Studies - Kinshasa) during the week of March 17. The DOE/DOS team is working toward eventually defueling the two nuclear reactors located at the University of Kinshasa and repatriating all U.S.-origin nuclear elements currently in CREN-K facilities. While DRC government officials were opposed to defueling one of the reactors, key members of the Ministry and CREN-K agreed to meet for technical meetings in the near future. (See Septel)

Petroleum

¶137. (U) Senator Lunda Bululu, former PM under Mobutu, says the 2008 budget is unconstitutional. He says that it does not include the required petroleum revenue sharing among provinces based upon their population size. (Note: the DRC is only producing about 25K barrels of oil per day, compared to nearly 200M barrels per day in neighboring Angola. End note.)

¶138. (U) A geologist from the Ministry of Mines announced that significant petroleum reserves exist in eastern Ituri, Orientale Province. The geologist said a South African company, South Africa Congo Oil (SACOIL), negotiated a contract with the GDRC to share production from Block 3, located south of Lake Albert in Ituri. The Ministry of Hydrocarbons also announced Block 1 would be assigned to SACOIL after Tullow Oil (UK) and its partner, Heritage Oil (Canada), had relinquished the concession (a claim Tullow Oil denies).

¶139. (U) PERENCO, a French petroleum company specializing in on- and off-shore oil exploitation in the DRC is planning to invest USD 50 million to double production. Currently, the company produces 25 thousand barrels per day and exports 350 thousand barrels per month.

At the moment PERENCO has a 6 MW hydroelectric dam equipped with gas compression facilities, a water injection system, electricity generators, a petroleum storage vessel, and a 300 kilometer pipeline (210 miles). The GDRC has a 20 percent share in PERENCO.

¶140. (U) Brazilian investors from High Resolution Technical Petroleum (HRTP) visited the DRC on March 26 and met with Prime Minister Gizenga. HRTP said that they will launch their first petroleum drilling at Maindombe Lake, Bandundu next year. Dr. Keith Millheim, President of Global Drilling (a U.S. company) is a partner with the Brazilian investors. HRTP is investing USD 100 million of which USD 20 million was used on feasibility studies.

Public Enterprises

¶141. (U) Aiming to increase receipts, the new manager of SONAS (the National Insurance Company) launched a promotion campaign providing for a free replacement of car insurance stamps. In a close partnership with the traffic police the brake - block (Denver Boot) will be used to immobilize cars that do not have current insurance stamps.

¶142. (U) Union employees of the DRC National Water Company (REGIDESO) are protesting against possible World Bank-funded reforms as part of the public enterprise reform process. Employees feel that improved efficiency and competitiveness should not translate to layoffs.

¶143. (U) The Pilot Committee for the Reform of State Enterprises

(COPIREP) has confirmed the awarding of the State Rail Company (SNCC) management contract to Vectoris, a Belgian firm. Management of SNCC will now be mixed Congolese and Belgian. The Ministry of Portfolio, which oversees COPIREP, hopes that this move will contribute to the eventual return of SNCC to profitability.

¶44. (U) Recently-signed management contracts for GDRC river transport parastatal ONATRA and rail transport parastatal SNCC will cost a total of USD 8 million. Belgian firm Vectoris and Spanish/French firm PROGOSA will provide expertise that it is hoped will turn the unprofitable and under-equipped transportation parastatals around. ONATRA personnel, meanwhile, are reportedly more worried about the lack of new equipment (e.g. locomotives and riverboats). (Comment: While rolling/floating stock for the two companies is in abysmal condition and short supply, no sane investor

KINSHASA 00000333 007 OF 008

is going to pour millions of dollars into poorly managed companies.
End comment.)

¶45. (U) The newly-installed CEO of the Congolese Office des Routes used to 37th anniversary of the agency to deplore its lack of financial resources to cover operational costs and investment. He also denounced what he saw as the marginalization of his agency by funding and implementation of projects by outside entities.

Public Finance

¶46. (U) The DRC is struggling to meet the key macroeconomic targets required for eventual reestablishment of the formal IMF country program. The GDRC is hoping to conclude a new program by March in order to achieve Highly Indebted Poor Country (HIPC) completion point before the end of 2008. The challenge lies with maintaining GDRC expenditures within revenues.

¶47. (U) The GDRC's Technical and Economic Commission presented its annual report to the Council of Ministers on February 12. According to the Commission, the poor economic performance during the 4th quarter of 2007 was due to slow processing in the ports of Matadi and Boma; backlogs of merchandise at the Kasumbalesa border; reluctance of economic operators to BIVAC (customs) inspections; OCC's refusal to adopt the "guichet unique" (one-stop service for import/export clearance); and many other border issues. These problems led to a decreased supply of goods, higher prices in the interior, and lower DRC customs revenue.

¶48. (U) Budget Minister Adolph Muzito says that the GDRC has begun retrocession of state revenues to the eleven provinces. This is happening before actual adoption of the decentralization law by the National Assembly. Muzito stated that the GDRC would make sure that this money reaches the commune (the smallest administrative entity) level. USD 6 million has reportedly been given to Kinshasa province for the period January/February 2008.

¶49. (U) Tons of foreign-produced cigarettes are reportedly entering the DRC via Bunia, Province Orientale, in eastern Congo near the border with Uganda, without paying required customs and duty fees. Smuggling from Uganda is thought to be the cause.

¶50. (U) Speaker of the National Assembly Vital Kamerhe urged GDRC officials to allocate required budget support to provinces in anticipation of a vote on the so-called equalization law, as part of the overall decentralization process. This would allow provincial governments to address their emergency needs.

¶51. (U) According to the BCC, annual state revenues reached FC 162 billion (USD 324 million) and expenditures FC 161 billion (USD 322 million) through March 10, for a net positive balance of about USD 2 million.

¶52. (U) DRC foreign exchange reserves decreased by USD 4.38 million, down to a total of USD 170 million, which represents one week of imports. (Note: BCC Governor Masangu told Ambassador Garvelink on March 26 that this low level of reserves was "not a problem" because of the ease with which dollars can be obtained from the many in DRC

circulation. End note.)

Telecom

¶153. (U) In an agreement signed by the Republic of South Korea and DRC, South Korea will connect GDRC institutions via intranet starting with the ministries of Foreign Affairs, Justice, Plan, Budget, Finance, PTT, and Public Works.

Transportation

¶154. (U) Public transportation in Kinshasa has become even more difficult over recent months. The number of buses in circulation is considered insufficient, and people now rely more on taxis. Because the taxis are shortening their travel distances to maximize profits, the waiting-time for transportation is often more than an hour.

¶155. (U) The Kinshasa Urban Transport Company (STUC, an apt acronym), has launched a program to increase the number of buses in circulation. STUC's CEO announced that at least 50 buses will be put back into circulation due to a significant acquisition of spare parts. STUC also held an awards ceremony to congratulate Congolese mechanics that were trained by Tata Motors (the Indian supplier of most buses in the DRC).

KINSHASA 00000333 008 OF 008

¶156. (U) At a meeting in Matadi, the GDRC decided that at the end of the month they will auction containers that are piling up at ONATRA's port. This should ease congestion and allow normal operations to resume.

Monthly Inflation and Exchange Rates

¶157. (U) The monthly inflation rate for March was 5.6 percent. The year-to-date inflation rate stands at 10 percent. This inflation is mainly due to the 11 percent increase in fuel prices at the beginning of March in western DRC, which was in turn reflected in a 10 percent increase in overall transport costs. (Note: these figures were calculated using the Embassy Kinshasa Economic Section market basket survey, which was indexed last in late 2000. A new representative market basket of goods and services is being created to better reflect the current market situation. End note.)

¶158. (U) The exchange rate has leveled off at around 560, and compared to the rate for February the Congolese franc depreciated by only about 1.6 percent.

1/29/2008 2/29/2008 3/28/2008

BCC 542 548 557

Parallel markets:

Kinshasa 560 570 570

Lubumbashi 550 560 570

Mbujimayi 550 570 570

Kisangani 550 560 560

Goma 560 570 570

Bukavu 550 560 570

GARVELINK